

## **Cadence Capital Limited (ASX Code: CDM)**

### **June 2020 Investor Presentation**

### **26th June 20 11am AEST**

Please find below a copy of the June 2020 Investor Presentation. Please note that a video copy of the Investor Presentation will be made available on the Company's website once the Investor Presentation is complete.

If you have not already registered to join the Investor Presentation please do so by clicking the below button. If you have already registered you can join the video presentation by clicking this link and entering your e-mail address. This presentation will start at 11.00am Friday 26<sup>th</sup> June at 11.00am (AEST).

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## Fund update

- Equity markets fell approximately 35% over late February to mid March as CoVID-19 spread globally and economies were shut down.
- Markets have recovered on the back of evidence of virus containment and fiscal and monetary support.
- CDM scaled out of its positions as the market fell, with the Fund only 44% invested as at 31 March 2020.
- Many stocks which we had previously considered too expensive were sold down to attractive levels in the sell-off.
- As the markets recovered in April and May the Company re-deployed its cash and scaled into a number of these new positions. It also scaled back into existing positions where the fundamentals remained compelling.
- The Fund has also participated in a number of capital raisings which have been a feature of the market more recently.
- As at 31 May the Company was 92% invested.



## YTD Performance

Gross Performance* to 31st May 2020	CDM	All Ords Accum	Outperformance
1 Month	9.3%	5.0%	+4.3%
YTD	-5.1%	-9.3%	+4.2%
1 Year	-9.2%	-6.2%	-3.0%
3 Years (per annum)	-3.3%	4.7%	-8.0%
5 Years (per annum)	-3.3%	3.7%	-7.0%
8 Years (per annum)	5.0%	9.0%	-4.0%
10 Years (per annum)	10.7%	7.2%	+3.5%
Since Inception (14.7 years) (per annum)	11.2%	6.1%	+5.1%
Since Inception (14.7 years) (total return)	372.2%	136.7%	+235.5%

\* Gross Performance: before Management and Performance Fees

- The fund has performed well over the past few months
- This performance has been delivered across both new and existing positions, and both domestically and internationally.
- Stocks that have performed well over the past couple months have been Resimac Group, EML Payments, City Chic Collective, Money3 Corp., Uniti Group, ZIP Co., Pointsbet Holdings, Macquarie Group, Lynas Corp. and Credit Corp. Group.

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## Top 20 Holdings – 31 May 2020

Code	Position*	Currency Exposure
AAPL US	Apple Inc	AUD
APE	AP Eagers Ltd	AUD
APX	Appen Ltd	AUD
ARB	ARB Corp Ltd	AUD
BPT	Beach Energy Ltd	AUD
CCP	Credit Corp Group Ltd	AUD
CCX	City Chic Collective Ltd	AUD
**	Deepgreen Metals	AUD
EML	EML Payments Ltd	AUD
FB US	Facebook Inc	AUD
LYC	Lynas Corp Ltd	AUD
MNY	Money3 Corp Ltd	AUD
MQG	Macquarie Group Ltd	AUD
PBH	Pointsbet Holdings Ltd	AUD
QUB	Qube Holdings Ltd	AUD
RMC	Resimac Group Ltd	AUD
SHJ	Shine Corporate Ltd	AUD
STO	Santos Ltd	AUD
TEVA US	Teva Pharmaceutical	AUD
UWL	Uniti Group Ltd	AUD

\* In Alphabetical Order

\*\* A.P. is-P.O. investment in the lithium sector

A more  
diversified and  
more liquid  
portfolio

- We have been adding to both new and existing positions that have been performing well

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## Portfolio Composition – 31 May 2020

Market Capitalisation	Long	Short	Net
> AUD 1 Billion	56.2%	-1.3%	54.8%
AUD 500 Mill - AUD 1 Billion	14.7%	-0.6%	14.1%
AUD 250 Mill - AUD 500 Mill	11.5%		11.5%
AUD 100 Mill - AUD 250 Mill	6.1%		6.1%
0 - AUD 100 Mill *	4.9%		4.9%
<b>Exposure</b>	<b>93.4%</b>	<b>-1.9%</b>	<b>91.5%</b>

### Net Cash Holdings and Tax Asset

8.5%

\* Includes a pre-IPO investment in the Materials sector

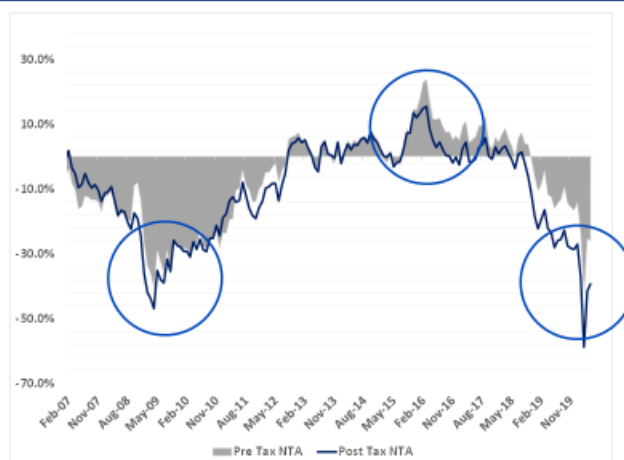
- The liquidity of the portfolio has significantly improved with approximately 79% of the portfolio able to be liquidated within 1 week and 88% within a month.
- 55% of the portfolio is invested in Companies with >\$1 Billion market capitalisation.
- Concentration risk has also improved. The company currently holds around 70 positions. The largest long position is 6 % of the fund and the largest short position is 1 % of the fund

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## CDM Discount and Premium to NTA



- Investors have the opportunity to purchase into the underlying portfolio at a 25% discount

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## Pre and Post Tax NTA

Net Tangible Assets as at 31 <sup>st</sup> May 2020	Amount (\$)
Pre Tax NTA*	\$0.803
Post Tax NTA*	\$0.980
Share price (ASX Code: CDM)*	\$0.595

\*After the 2.0 c fully franked interim dividend paid on 13th May 2020

- CDM's Post-Tax NTA is larger than its Pre-Tax NTA by 18 cents - it has an 18 cents per share tax asset.
- This tax asset is due to both realised and unrealised tax losses. The Company can use up these tax losses, as it so chooses, against future tax profits. Simply put the Company can earn approximately 60 cents in the future without paying tax.
- There is therefore currently a potential for CDM investors to buy into a portfolio at around a 25% discount with the added benefit that as the Company earns future profits the Pre-tax NTA will move up towards the Post-tax NTA as company uses up its tax asset.
- Over the past few months CDM has had more investors buying shares than selling shares.
- The buyers of CDM shares is made up of new investors, previous investors returning onto the CDM register and some existing CDM investors adding to their positions.

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## Market update

- The stock market rally since the March lows has been stronger than many expected.
- Active cases of CoVID-19 have reduced significantly across most major developed economies.
- Emerging markets such as Brazil, India, Mexico, and Pakistan continue to see rising cases.
- The fiscal response from governments globally has been significant, with budget deficits expected to reach levels last seen in WW2.
- The response from central banks has also been aggressive, with lower interest rates and asset purchases.
- The US Federal Reserve has increased the scope of its buying to include investment grade and high yield corporate bonds, as well as facilitating direct lending to enterprise and SMEs.
- One estimate has global stimulus to-date at over US\$15 trillion and rising.
- Sentiment has also played an important role in the market recovery. Fear has started to turn to hope and "Fear Of Missing Out".

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## Current Investment Themes

Several investment themes have emerged during this period including:

### The move to digital

- Tech stocks were among the first to recover as their operations were generally less impacted from shutdowns.
- Working from home has driven significant demand for products and services that power this transition.
- Structural trends such as Cloud and E-Commerce have been accelerated.
- Many tech businesses are very well capitalised which enables them to continue to invest in future growth.
- Examples within the portfolio include: EML Payments (EML), Uniti Wireless (UWL), Appen (APX), Pointsbet (PBH), Apple (AAPL US), Alibaba (BABA US), Google (GOOGL US), Facebook (FB US), NVIDIA (NVDA US), Rhiper (RHP) and Data #3 (DTL).

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## Current Investment Themes

### Finance recovery

- The financial sector experienced one of the largest % declines as investors used the GFC experience as a measure of likely future performance.
- Fiscal and monetary support measures have had a significant positive impact on customer arrears and bad debts.
- Many lenders are now more cautious on writing new business and have increased lending standards.
- The recovery phase will be an opportunity for the better capitalised players to take market share.
- How well can consumers and businesses recover after the withdrawal of stimulus programs such as the JobKeeper package?
- Examples within the portfolio include: Resimac (RMC), Credit Corp (CCP), Money3 (MNY), Macquarie (MQG) and Australian Finance Group (AFG)

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## Current Investment Themes

### Auto industry recovery

- Used car sales volumes and pricing have recovered and in some cases are exceeding pre-CoVID-19 levels.
- Aftermarket sales are also benefitting from the increase in demand for domestic driving holidays.
- Dealerships are also experiencing a rapid recovery in demand.
- Business tax incentives are playing a part.
- Avoidance of public transport given health concerns is another potential driver.
- Sustainability of this demand remains the key question.
- Examples within the portfolio include: ARB Corporation (ARB), AP Eagers (APE), Carsales (CAR), Transurban (TCL) and Atlas Arteria (ALX)

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## Current Investment Themes

### Oil price recovery

- Oil prices fell to negative in May as driving and flying was brought to a halt globally.
- The large oil producing nations initially were unable to reach a deal to limit supply, before eventually agreeing to substantial production cuts.
- The US rig count has fallen from close to 1,000 last year to below 300.
- Perhaps we will look back on an oil investment now as an investment at a time of maximum pessimism.
- Demand will take time to recover but one day we may all be using trains, planes and automobiles again.
- Examples within the portfolio include: Santos (STO), Beach Energy (BPT), Woodside Petroleum (WPL), Oil Search (OSH) and FAR Limited (FAR).

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## Outlook

- One of the quickest market declines in history has been followed by one of the quickest market recoveries.
- The issue isn't whether the recovery is V shape, U shape, L Shape or W shaped but that a recovery is underway.
- Risks remain, including a second wave of infections in the US, re-escalating tensions between China and the US, and the impact from the withdrawal of economic support measures.
- On the other hand, governments and central banks are likely to continue their support efforts if conditions deteriorate.
- Australia and New Zealand are in a strong position to recover.
- August reporting season will be an important test of whether expectations are in line with reality. The 2021 and 2022 forecast results will be important rather than 2020 actual results.
- We are still finding some compelling investment opportunities, particularly in more cyclical sectors and specific small-cap situations.
- Once again, the market is likely to climb a 'wall of worry' throughout the recovery process.

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